

PUBLIC UTILITIES
COMMISSION

SEP 2 3 35 PM '04

-- In the Matter of --

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate
Distributed Generation in Hawaii

DOCKET NO. 03-0371

OF

AND

Warren S. Bollmeier II, President
HREA
46-040 Konane Place #3816
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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

-- In the Matter of --)	
)	
PUBLIC UTILITIES COMMISSION)	DOCKET NO. 03-0371
)	
Instituting a Proceeding to Investigate)	
Distributed Generation in Hawaii)	
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I. INTRODUCTION AND SUMMARY

The Hawaii Renewable Energy Alliance hereby submits Supplemental Information Requests (IRs) dated September 3, 2004 to the Consumer Advocate, Kauai Island Utility Coop and the Companies, in accordance with Public Utilities Commission's (PUC's) Prehearing Order Number 20922 (Reference Docket No. 03-0371).

II. HREA SUPPLEMENTAL INFORMATION REQUESTs

HREA's Supplemental Information Requests are included below in the following order: Consumer Advocate (page 3), the Kauai Island Utility Coop (page 4), and the Companies (pages 5 to 8). Note: these supplemental information requests are to clarify and follow-up on the Parties' responses (submitted on August 18, 2004) to HREA's Information Requests (submitted on July 28, 2004).on the Parties' Direct Testimony.

A. Division of Consumer Advocacy ("CA")

The following is a supplemental information request to Joseph A. Herz, P. E., regarding his response to HREA-CA-T-1-IR-20 on his direct testimony (CA-T-1)

HREA-CA-T-1-SIR-1. In response to HREA-CA-T-1-IR-20, Mr. Herz discussed a scenario whereby the "DG competitive market will be defined through the IRP process. The subsequent competitive bid process and/or potential involvement of several market participants will provide the foundation for a level playing field." This approach appears to be similar to that proposed as a "structured competition model" in HREA's Direct Testimony (T-1) by Warren S. Bollmeier II. To clarify Mr. Herz's response:

1. Would Mr. Herz and the CA agree that the proposed Companies' CHP tariff does or does not comport with Mr. Herz's suggested IRP definition and competitive bidding approach (similar to HREA's structured competition model)?

2. HREA would agree that several market participants are needed for a competitive market, and would add that, among other characteristics, no one participant should have more than at 25% share of the market. We believe that a CHP market with five or more non-utility DG providers could achieve that goal. However, HREA is concerned about the market power that the Companies possess. As evidence of this market power (Reference HREA-HECO-T-6-IR-5), HECO has estimated they will achieve an 88% share of the CHP market (7,700 kW out of 8,700 kW by 2009 per HECO's Exhibit HECO-104 in their Direct Testimony). Please comment on whether the desired "competitive bid process and/or potential involvement of several market participants" can be achieved given the Companies goal to gain a 88% share of the market.

B. Kauai Island Cooperative Utility (KIUC)

The following is one supplemental information request to Alton Miyamoto and Richard Friedman, regarding their response to HREA IRs on their direct testimonies (KIUC-T-1 and KIUC-T-2).

HREA-KIUC-SIR-1. Given that KIUC's criteria for operation of the Kauai island grid will be subject to review by KIUC members, would KIUC support consulting with its membership on the role of KIUC in the DG market?

C. Hawaiian Electric Company, Maui Electric Company and Hawaii Electric Light Company ("HECO")

The following are supplemental information requests to Scott Seu, P. E., regarding his direct testimony (HECO-T-1) on behalf of HECO.

HREA-HECO-T-1-SIR-1. As a follow-up to HREA-HECO-T-1-IR-4. HREA would agree that it could be "disingenuous" to focus on one aspect of an issue. However, HREA was merely observing that the Companies' did not appear to be analyzing the negative economic aspects associated with the Companies' continued use of fossil fuels. HREA would like to take a closer look at HECO's response, which focuses on ONE renewable technology (in this case, PV). Specifically:

1. Hawaii may purchase PV systems, which are currently NOT being manufactured in Hawaii. However, would HECO agree that Hawaii is NOT purchasing PV systems from politically volatile and unstable foreign governments or the uncertain future of oil from other sources, such as Alaska?

2. Given the increasing price of oil, upon which Hawaii so heavily depends, how can HECO be so sure that PV will be more expensive in the future?

HREA-HECO-T-1-SIR-2. As a follow-up to HREA-HECO-T-1-IR-6, if HECO assumes that its utilities are in a load growth period, HREA would agree that there could be impacts to HECO's shareholders due to loss revenues from non-utility installations. However, HREA believes that potential rate impacts to customers from the non-utility installations would be less than the potential rate and customer bill impacts from HECO's recovery of all proposed CHP tariff costs, including the pass-through of all fuel costs. Correct us if we are wrong, but here is our rationale for drawing this conclusion: (i) HECO investments in CHP will be like HECO investments in larger facilities. When was the last time that a new power plant didn't result in a rate increase?; and (ii) additional use of fossil fuel, notwithstanding the efficiency gains, will result in increased costs through the fuel adjustment clause, at best increasing at a lesser rate than if the additions were central generation.

HREA-HECO-T-1-SIR-3. As a follow-up to HREA-HECO-T-1-IR-8, does HREA understand correctly that the Companies' use of the phrase "so that non-participating customers are not burdened" means that the Companies believe that any impacts from a utility-owned system will be less than the impacts from a third-party system? Should not the Companies design an approach where the non-participating customers are not negatively impacted in any way?

HREA-HECO-T-1-SIR-4. As a follow-up to HREA-HECO-T-1-IR-9, doesn't a Power Purchase Agreement (PPA) actually include the interconnection agreement?

HREA-HECO-T-1-SIR-5. As a follow-up to HREA-HECO-T-1-IR-10, the Companies did not answer the following HREA questions directly: (i) are they (Austin Energy) allowed to rate-base their investments?; and (ii) are they allowed to pass through their fuel costs to their customers? If the answer to either or both of these questions is "yes," please provide documentation of corroborating evidence (e.g., correspondence with Austin Energy).

HREA-HECO-T-1-SIR-6. As a follow-up to HREA-HECO-T-1-IR-1, involvement in the CHP market would provide more choices and options based on the assumption that no 3rd parties would or could offer similar products and services?

The following are supplemental information requests to Ross H. Sakuda, P.E., regarding his direct testimony (HECO-T-3) on behalf of HECO.

HREA-HECO-T-3-SIR-1. As a follow-up to HREA-HECO-T-3-IR-1, regarding the capabilities of 3rd parties vs. the utility to install and operate CHP installations, HREA observes that the application of CHP technologies in Hawaii (as well as on the mainland) is a relatively new phenomenon, and there is still room for improvement. While HREA agrees that the utility's core business includes power generation, why then are the Companies seeking to partner with DG providers, such as Hess-Microgen? It would appear that the Companies have something to learn from companies such as Hess.

HREA-HECO-T-3-SIR-2. As a follow-up to HREA-HECO-T-3-IR-6, have the Companies considered adding incremental amounts of spinning reserve on Maui's and Hawaii's system, e.g., lesser amounts than the largest unit on the Maui's and Hawaii's systems? For example, would not it be cost-effective to have spinning reserve to both: (i) follow load and generation excursions beyond the normal operating reserve capability, and (ii) as a specific example of (i) -- to provide generation during fault-clearing events?

The following is a supplemental information request to William A. Bonnet, regarding his direct testimony (HECO-T-6) on behalf of HECO.

HREA-HECO-T-6-SIR-1. As a follow-up to HREA-HECO-T-6-IR-5, HREA does not share the Companies' perspective as to what makes for a competitive market. While there may be many definitions of what makes for a competitive market, HREA offers the following definition as a reference for comments by the Companies to the discussion herein:

Main Assumptions of Perfect Competition¹

• Each firm produces only a small percentage of total market output. It therefore exercises no control over the market price. For example it cannot restrict output in the hope of forcing up the existing market price. Market supply is the sum of the outputs of each of the firms in the industry

HREA Comment: HECO's response, that "the Companies' CHP forecast in HECO-104 anticipates that a fair amount -- roughly 20% -- of the CHP projects will be independently developed by customers," flies in the face of this very basic assumption (tenet) of what it takes to make for a competitive market, much less a perfectly competitive market.

• No individual buyer has any control over the market price - there is no monopsony power. The market demand curve is the sum of each individual consumer's demand curve -- essentially buyers are in the background, exerting no influence at all on market price

HREA Comment: It does not appear that Hawaii is in danger of any one buyer exercising control of the market price.

• Buyers and sellers must regard the market price as beyond their control

HREA believes that the Companies, as a Seller and by virtue of their existing monopoly power, would be able to control the market price for CHP.

• There is perfect freedom of entry and exit from the industry. Firms face no sunk costs that might impede movement in and out of the market. This important assumption ensures all firms make normal profits in the long run

¹ Reference: http://www.tutor2u.net/economics/content/topics/monopoly/perfect_competition.htm

HREA Comment: HREA has already argued that there are existing barriers to the CHP market.

• Firms in the market produce homogeneous products that are perfect substitutes for each other. This leads to each firms being price takers and facing a perfectly elastic demand curve for their product

HREA Comment: HREA realizes that the initial CHP market may result in non-homogeneous products, and not all products will be interchangeable. Consequently, the Companies' approach goes against this tenet, and HREA believes would lead to their "take-over" of the CHP market as they have predicted (Reference their response to HREA-HECO-T-6-IR-5). However, HREA also believes that if the Companies were not allowed to participate directly in the CHP market, a number of third Parties would offer products and services similar, if not identical, to what the Companies have proposed.

• Perfect knowledge – consumers have perfect information about prices and products.

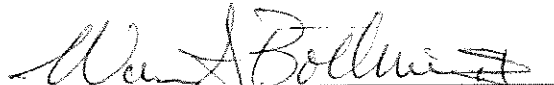
HREA Comment: HREA believes this will be very hard to achieve, but impossible if the market is dominated by one major player.

• There are no externalities which lie outside the market

HREA Comment: HREA believes this will be very hard to achieve, but impossible if the market is dominated by one major player.

END OF INFORMATION REQUESTS

DATED: September 3, 2004, Honolulu, Hawaii



President, HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Supplemental Information Request upon the following parties by causing a copy hereof to be hand-delivered or mailed, postage prepaid, and properly addressed the number of copies noted below to each such party:

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Dated: September 3, 2004



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